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THE COST OF LIVING; HAS IT RISEN, AND WHY?

By Alex. Del Mar.

Mr. Del Mar was formerly Director of the U. S. Bureau of Statistics. He is a recognized authority on the use of the precious metals as money and on other phenomena of finance.—THE EDITORS.

ABLE speeches have been delivered in Congress and able articles have appeared in leading newspapers concerning the recent rise in the cost of living in the United States; yet none of them appears to have determined the fact definitely, or to have adopted a method which, when the fact was determined, was capable of disclosing its underlying causes.

What is meant by the cost of living in the United States is not merely the wholesale unit prices of the ninety-six commodities embraced in Bradstreet's very excellent and reliable American Price Tables, or the wholesale quantitative prices of a similar list of commodities in Saurbeck's British Tables; but the actual cost of rent, services, commodities and miscellanies to the average American citizen. To add the cost of a pound of butter at 30 cents to that of a pound of flour at 3 cents, and compute the cost of bread-and-butter at 16½ cents per pound, would be no more erroneous than the method employed in some of the otherwise very admirable articles which have been published on this subject; while as to rent, which is the heaviest article of expenditure to the average citizen, it is not so much as mentioned in any of them. Neither is coal mentioned. A "ton" of this fuel used to weigh 2,240 pounds and cost about $5 or $5.50; that is to say, the consumer used to get something like 4 pounds for a cent. The poor man's "ton" now does not commonly weigh over 1,500 pounds and costs $6; he gets but 2½ pounds for a cent. As the usual consumption of the average Northern household varies from 10 to 30 tons a year, this item forms no inconsiderable element in the cost of living. It is far more important than the majority of the commodities usually included in the quoted price tables.

Servants' wages and the cost of their maintenance; the daily expense of transportation (car-fares, commutation-tickets, expressage, etc.), the cost of the business-man's or working-man's lunch, the fees which he is obliged to pay to physicians, dentists and other professional men, and those smaller, but in the aggregate, commonly more important expenses which include the barber, the porter, the waiter, etc., all these are left out of view in these discussions. Yet they have to be met, and therefore have something to do with the cost of living.

We next turn to clothing, hats, shoes, gloves and underwear. None of these articles appear in Bradstreet's or Saurbeck's tables, yet they form a very considerable item of expense to the average citizen and especially to the American, because for reasons connected with our fiscal system the most important of these articles have come to be made of such flimsy materials that they scarcely outlast a single season; whereas in other countries a good suit of clothes lasts for years without appreciable deterioration. Similar considerations affect the expense for furniture, carpets, hangings, and indeed almost every article of household use. In other countries they have to be made to last; in the United States they are made to sell. Second-hand foreign furniture commands with us a higher price than new domestic furniture of the same styles and (apparently) the same materials. The flimsiness of American furniture, carpets, and other household goods causes them to wear away after very brief use, so that their renewal becomes a far more important item in the cost of living than it is in other countries; yet these articles nowhere appear in the tables of prices which have been published concerning the cost of living. It is true that furniture would be a difficult commodity to describe, classify and quote; but such is not the case with carpets, rugs, oilcloths, hangings, blankets, bedding, etc., all of which are classifiable and amenable to definite quotation.

Defective Methods.

The result of employing defective methods is that in some of the researches which have been made, no definite conclusion has been reached; while in others the conclusion has been erroneous, it having actually been shown by at least one writer that the cost of living has not risen, whereas universal experience and more rigid research combine to attest that it has risen, and risen very materially.

Fortunately for the determination of the matter we possess criteria that will not be questioned. These are the carefully compiled and officially promulgated data prepared by the Bureaus of Statistics and Labor in the Department of Commerce, from which the following Tables are quoted. For purposes of comparison we begin with the wholesale prices.

Wholesale Prices—All Articles

"The average wholesale prices of 258 staple commodities during the ten years," 1890-1899 being reduced to 100, the relative prices of the same articles in each year separately, commencing with 1897 were as follows: 89.7; 93.4; 101.7; 110.5; 108.5; 112.9; 113.6; 113.0; 115.9; 122.5; 129.5; 122.8; 126.5. So that if to purchase these commodities during the last decade would have cost $100, in 1900 they would have cost $110.50 and in 1909 $126.5; showing a rise since 1897 of 41 per cent.

Wholesale Prices—Food Only.

Included in the 258 staples above quoted are 57 of "Food, etc.," and these being based at 100 during the decade 1890-1899, they exhibited the following relative prices in each year separately, beginning with 1897: 87.7; 94.4; 98.3; 104.2; 105.9; 111.3; 107.1; 107.2; 108.7; 112.6; 117.8; 120.6; 124.7. This table shows that the advance in the wholesale prices of food, etc., has kept almost equal pace with the advance in wholesale commodities generally. We now turn to retail prices.

Food—Retail Prices.

The following table shows the relative quantitative prices in each year since 1897 of 30 selected articles of food, the relation being based on 100 for the average quantitative prices during the decade 1890-9:

Year.	Simple prices.	Quantitative prices.
1897	96.3	96.3
1898	98.5	98.7
1899	99.6	99.5
1900	101.5	101.1
1901	105.5	105.2
1902	110.9	110.9
1903	110.9	110.3
1904	111.6	111.7
1905	112.5	112.4
1906	116.2	115.7
1907	120.7	120.6
1908	125.0	124.8
1909	129.1	130.4

The computations for the last two years are unofficial.

The articles included in the above table are dried apples, dried beans, roast beef, beefsteak, salt beef, wheat bread, butter, cheese, chickens, coffee, corn meal, eggs, fresh fish, salt fish, flour, lard, milk, molasses, pork, salt bacon, salt pork, potatoes, prunes, rice, sugar, tea, veal, and vinegar. The quantitative price is computed by giving to the relative price of each article its proper weight, as determined by the average consumption in 2,567 families of workingmen. It will be observed that in the case of food, there is very little difference between the simple and quantitative prices; but this is not the case with other commodities.

Food—Retail Prices of Principal Articles.

If we select from the 30 articles of food the 6 most important ones, their relative retail prices would run as follows:

Year.	Beef, steaks.	Wheat flour.	Butter	Pork fresh.	Potatoes Irish.	Eggs.
1890-9	100	100	100	100	100	100
1897	100.2	104.3	93.1	97.6	93.0	91.4
1898	102.0	107.4	95.1	98.6	105.4	96.2
1899	103.9	94.6	97.7	101.7	96.1	101.1
1900	106.4	94.3	101.4	107.7	93.5	99.9
1901	111.0	94.4	103.2	117.9	116.8	105.7
1902	118.5	94.9	111.5	128.3	117.0	119.1
1903	112.9	101.2	110.8	127.0	114.8	125.3
1904	113.4	119.9	109.0	124.0	121.3	130.9
1905	112.9	119.9	112.7	126.6	110.2	131.6
1906	116.5	108.1	118.2	137.7	114.4	134.2
1907	120.6	117.7	127.6	142.5	120.6	137.7
1908	124.6	118.5	131.2	144.9	123.1	144.1
1909	138.3	120.4	134.7	143.8	124.9	142.5

It will be noticed that the results are practically the same. Prices have risen about a third.

RENTS.

With regard to rents we have no comprehensive official data, while the alteration in building laws and other circumstances render comparisons difficult; but it is a well-known fact that during the past decade rents have slowly though steadily advanced. In our principal cities a class of apartments that ten years ago rented for $30 a month, now command $40. In the case of the better class of apartments, those which rented for $8 to $10 per room per month, now fetch $10 to $12; while the rooms themselves have grown smaller and the buildings higher. It is the opinion of an experienced manager of such estates that apartment rents in our principal cities have advanced during the last ten years from 15 to 25 per cent.

CLOTHING AND HOUSEHOLD GOODS.

Comparing not the prices of, but the actual outlay for, clothing, hats, shoes, gloves, underwear, furniture, carpets, hangings, bedding and household goods at the present time, we find that there has been since 1897 a rise of 40 to 50 per cent, the articles of most common use varying from 35 to 45 per cent and those of less common use from 40 to 50 per cent advance over what they formerly cost to purchase or replace.

THE WORKINGMAN'S FOOD.

The official price table which exhibits the least advance is that of the cost of food consumed by 2,567 workingmen's families, each year from 1890 to 1907. This table does not include the cost of rent, clothing, hats, shoes, bedding, furniture, etc. The advance in the cost of food alone is shown to have been from $299.24 per family per annum in 1897, to $374.75 in 1907, a rise of about 25 per cent. This may reasonably be regarded as a rise from 1897 to the present time of 28 to 30 per cent. As the American workingman usually lives very closely to the limit of his means, a rise of but 25 to 30 per cent in food expenditure, against a general rise of 35 to 40 per cent, rather indicates that the average rise in wages (union and non-union wage-earners combined) has not quite kept pace with the general rise in the cost of living.

EXPORT PRICES.

The statistics of domestic exports, which amount in the course of a decade to something like 15 billions of dollars and which are based on sworn manifests of each item separately, exhibit more striking results. Not to fatigue the reader with too many figures, we select a dozen leading articles from the export summaries and show their average prices during the entire years 1898 and 1908, the last mentioned being the most recent year shown in the official compendium of total comparative exports and their average prices. In this table the average rise of prices is close to 50 per cent. If it included exports of 1909 and 1910 it would exhibit a rise of over 50 per cent.

EXPORT PRICES OF TWELVE LEADING DOMESTIC ARTICLES OF EXPORT FROM THE UNITED STATES DURING THE FISCAL YEARS 1898 AND 1908 RESPECTIVELY.

Articles.	1898.	1908.
Boards, deals and planks, M. feet	$15.28	$23.00
Cotton, raw, pound	.059	.118
Cotton, manufactured, yard colored	.052	.072
Cotton, manufactured, yard uncolored	.048	.067
Bacon and hams, pound	.077	.109
Lard, pound	.056	.091
Pork, salted, pound	.056	.089
Beef, pound	.055	.068
Butter, pound	.15	.218
Cheese, pound	.086	.129
Leather, sole, pound	.175	.211
Boots and Shoes, pair	1.39	1.75
Together	$17,484	$25,922

This important table exhibits an advance of 50 per cent in prices.

THE FACT.

Casting the view back to the period about the beginning of the present century, we find that wholesale prices have advanced about a third; retail prices of food, over a third; the average man's outlay for rents and services about a third; for clothing and household goods, over a third; the cost of the workingman's food (alone) about 30 per cent, and the prices of export goods (staples) alone, about one-half or 50 per cent; the general result being that, taking quantity, quality and numbers into consideration, the average cost of living in the United States has risen about a third, with a decided tendency to still further advance.

Commodities and Dollars.

Reverting from the prices to the denominations in which they are couched, these are dollars and cents, the latter being portions of dollars. The method is quite correct; indeed there are no other terms in which they could be quoted, because all commodities are bought and sold for dollars. But in such quotations the important consideration is usually lost sight of: that while the commodities might be the same, one year with another, the dollars are *never the same*. The comparison is therefore scientifically inexact; in other words, the trend of prices shown in the price tables, is always erroneous in degree and may even be so in direction. Suppose we compare the purchasing power of a dollar in the time of Washington with its purchasing power to-day. Would any intelligent person claim that they were the same? In 1790, after the Continental issues were repudiated, and before the Bank of the United States was established, the population was about 4,000,000 and the number of dollars in use about 20,000,000, or say $5 per capita. There were no railroads to move these dollars rapidly from place to place, no bank notes to suppplement them, practically no banks to lend them out and keep them in circulation, no telegraphs to multiply their usefulness, and no clearing-houses to issue "certificate" dollars at a pinch. The only dollars in use were metallic ones; and each man kept his bank in his pocket, or in some secret hoard.

At the present time, with a population of 90,000,000, there are 3,104,547,273 dollars in circulation, amounting to $34.45 per capita (Treasury Statement May 2, 1910); to say nothing of the $500,000,000 of "emergency currency," all printed and stored ready for use in the United States Treasury building, or the "200 or 300 millions" of Clearing-House certificates which may be issued in case of another panic. Would any intelligent person claim that the dollar of 1790 and the dollar of 1910 was the same measure of value, the same criterion of price? Of course not. Nor has it it been exactly the same in any one of the intervening years, during which dollars were increasing from $5 to nearly $35 per capita of population.

Velocity.

There is another consideration to be borne in mind with reference to the dollars employed in comparative tables of prices: the more rapidly such dollars pass from hand to hand, in other words, the more often the same dollars can be used for payments in a given interval of time, the greater the influence they must exert in raising prices. This is a function and peculiarity of money which is admitted and recognized by all the economists, a peculiarity which is well known to bankers and other dealers in money and which has been made the subject of numerous scientific researches, yet one which is rarely held in mind by the ordinary compiler of price-lists. Sixteen years ago (1894) as the result of an elaborate investigation into the phenomena of prices, the velocity of money in the United States was estimated at 52 times a year, or once a week, and in Great Britain at 180 times a year, or once in 2 days; a disparity that was found to be due chiefly to the relative geographical areas of the two countries. At the present time the velocity in the United States is probably not less than 60 times a year, or once in 6 days; in other words, that all the dollars in circulation in the country are used over and over again in payments 60 times during the year. How often the dollars of 1790 were used and re-used, we have no means of determining; but it will probably not be far wrong to estimate it at once a month. It would follow that the dollar of to-day was five times more rapid, useful and effective and therefore more influential in promoting trade and determining prices than the dollar of Washington's time. The bearing of this circumstance upon the common method of measuring the trend of prices from comparative tables, is obvious. It is that any comparison of prices, especially when made at distant dates, is scientifically erroneous, unless the quantity and velocity of money are both taken into consideration; for these, when multiplied into one another, form the practical measure in which such prices are couched. In the case of dollars which from any cause are imperfect, limited in legal functions, restricted in circulation, or liable to be hoarded or exported, certain allowances would have to be made; but for the sake of simplicity in endeavoring to discern the operation of a principle, we are assuming throughout full legal-tender gold dollars, in active circulation, within the country.

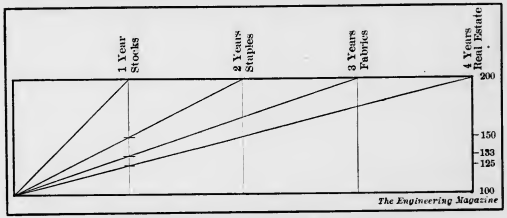
Assuming the total volume of the currency to be such as is above stated and the velocity at 60 times a year, the sum of exchanges ought to be $3,104,547,273 × 60 = $186,270,000,000. That such is the fact, or very close to the fact, is proved by the actual sum of clearings, which, for the year ended September 30, 1909, was reported by the 123 clearing-houses of the United States at $158,500,000,000. During the current year the clearings will probably amount to $175,000,000,000, and allowing $11,270,000,000 for exchanges that do not go through the clearing-houses, we have a grand total of $186,270,000,000 of exchanges, to offset the sum of currency multiplied by its ratio of velocity. These figures afford strong evidence that the theory of velocity is sound; and if so, it proves that, in considering the causes which have contributed to occasion a rise of prices, the increased and always increasing velocity of money, afforded by modern transportation, communication, and credit devices and agencies, should be taken into the problem. It would probably be hardly too much to say that, roughly speaking, fully one-tenth of the rise of prices during the past decade—whatever such rise may be—is attributable to the increased velocity of money, during the same period.

PRECESSION.

There is yet another consideration, one to which no place appears to have been given in any of the essays which have been published on the subject of the rise in prices. It is this; that when any impulse is given to prices by increasing the currency, or accelerating its velocity and thus stimulating trade, all prices do not rise at the same time and therefore not at the same ratio at any given time. For the sake of illustration, let it be supposed that the number of dollars in circulation or their velocity were suddenly doubled and kept doubled. Other circumstances being equal, it would seem that the general level of prices ought also to double and to double instantly; but such is not the course of nature. It has been observed that under such an impulse, some commodities will rise in price more promptly and rapidly than others. For example, stocks will rise almost instantly, while real estate may remain unaffected until a much later period. From the observations referred to, covering a long period of years, it appeared that in the United States, following an increase of money and taking no account of the time involved in geographically distributing the increase, it nevertheless required a period of several years for all prices to conform to such increase. During this interval the prices of a certain few classes of commodities or services doubled, after which the prices of others doubled, and so on successively, until the doubling of all classes was completed. In other words, the doubling of prices was not simultaneous, but took the form of a Precession, the order of which was somewhat as follows:—1. Railroad stocks; 2, other stocks; 3, shares of commercial incorporations; 4. crude and imperishable commodities; 5, perishable commodities, articles of subsistence, etc.; 6, fabrics, such as machinery, manufactured food, articles of wear, etc.; 7, real estate; 8, skilled labor; 9. unskilled labor; 10, professional services, or the emolument of authors, inventors, lawyers, engineers, clergymen, accountants, and other professional and clerical classes.

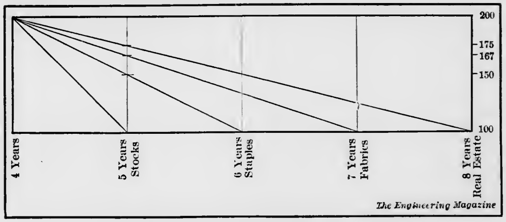
The interval between the doubling of the prices in these various classes of commodities or services was not uniform: in other words, supposing four years to be the time required for the entire doubling of prices, and the classes of commodities and services to be four in number, it did not follow that each successive year added one to the classes with doubled prices. After once commencing to feel the effect of the increased volume or velocity of money, some classes of commodities doubled in price more quickly than others.

For the sake of a simple illustration, suppose this actual inequality to be ignored and each year to add one to the classes of commodities with doubled prices; then the following diagram would theoretically illustrate the rise of each class at the end of each year.



A. HYPOTHETICAL RISE OF PRICES FROM 100 TO 200.

Thus at the end of the first year stocks are at 200, staples 150, fabrics 133 1/3, and real-estate 125. At the end of the third year, while stocks have enjoyed for two years a continuous market at 200, fabrics have recently and barely reached the same high level, while real-estate is still a year behind. This phenomenon is further illustrated by the following diagram, which assumes that at the end of the fourth year the volume or velocity of the currency is suddenly reduced to its former level.



B. HYPOTHETICAL FALL OF PRICES FROM 200 TO 100.

The effect of rapidly enhancing the volume or velocity of the circulation per capita is to place fabrics and real-estate at a disadvantage as compared with stocks and staples; because while the latter rise rapidly in price, the former rise slowly. Contrariwise, when the volume or velocity of money is not urged too rapidly beyond the growth of population and therefore of legitimate business demands and exchanges, then the farmers, manufacturers, laborers, and other producers of fabrics, are enabled to maintain prices, while stocks have fallen and become cheap, and while marketed and speculative staples have begun to decline.

Although in summarizing so comprehensive a subject as the comparative cost of living at different periods of time it may not be practicable to apply concretely the operation of Velocity and Precession to tables of prices, it will hardly be disputed that they have both had some influence on the cost of living; velocity, by tending to enhance all prices, and precession, by advancing the prices of staples (as shown in the export tables) far beyond those of any other classes of commodities except stocks, which have enormously and notoriously advanced in price during the period in question.

Causes of the Enhanced Cost of Living.

Turning from the fact to the causes of the enhanced cost of living, the principal ones assigned by the various authorities who have examined the subject are as follows: 1, the tariff; 2, monopolies; 3, combination and "gentlemanly understandings" to enhance the prices of manufactures and farm products; 4, increased production of gold; 5, the demands of labor; 6, exhaustion of natural resources; 7, heightened standard of living; 8. extravagance of living; and 9, the congestion of population in cities.

With all respect to the authors of these researches, and after a careful examination of the causes alleged, some of which have undoubtedly contributed, and largely contributed, to occasion the rise of prices, we do not find that any of them, or all of them together, are sufficient to explain the whole extent of the rise.

Wealth, Earnings, and Savings.

According to official figures, the National wealth advanced from $88,500,000,000 in 1900 to $107,000,000,000 in 1904, an increase in capital of about $4,600,000,000 per annum. The annual volume of production was: Farm products, (corrected to) $10,000,000,000; minerals, $3,000,000,000; lumber, fish and miscellaneous, $1,000,000,000; and manufactures (net), $10,000,000,000; total, $24,000,000,000.

Of our 90,000,000 of population, 35,000,000 are employed in gainful occupations, of whom about 29,000,000 are males and 6,000,000 females. These numbers include about 2,000,000 of males and 500,000 female children, 10 to 15 years of age. Their united earnings amount to about $34,000,000,000 a year, their expenditures to not much less, say $30,000,000,000.

What has to be furnished is a cause or causes sufficient to explain a rise of about a third in the cost, to the consumer, of the commodities and services represented or indicated by these colossal sums. This consideration disposes at once of nearly all the alleged causes. The tariff last year yielded little over $300,000,000; the increased production of gold has nothing to do with prices unless the gold is coined into money and employed in the circulation. The increased amount so coined and employed is too trivial in comparison with the national measure of the cost of living to be worthy of consideration in this connection; the demands of labor are primarily and mainly a consequence rather than a cause of the enhanced cost of living; the heightened standard of living, the extravagance of living, and the economical effects of urban congestion are all included in the gigantic figures which form the base of the problem; the exhaustion of natural resources is offset by the discovery and utilization of new resources; while neither is sufficiently tangible to practically contribute anything towards a solution of the question.

There remain only two of the alleged causes to consider, and these are essentially one cause; the influence of monopolies, combinations and "understandings" made in restraint of trade, or with the object to maintain or enhance prices. There can be no doubt that among the causes alleged, this is the principal one; nor can it be disputed that the tariff, by creating or upholding monopolies, has largely contributed toward the rise. But we can only find an adequate explanation of the rise in two other causes, both of which are commonly left out of view in these discussions. These are the Total Weight of Taxation, and the Expansion of the Currency.

The Weight of Taxation.

In 1909 the Federal Government disbursed over $1,000,000,000. In 1902 (the latest official statistics) the various States, counties, cities and towns disbursed $1,156,000,000, a rate of expenditure which by this time probably amounts to $1,500,000,000 a year, making the aggregate cost of government about $2,500,000,000. The Federal taxation to provide for these disbursements falls chiefly upon articles of consumption, and at least to that extent it enhances their cost and price; the State and local taxation falls chiefly upon lands, and houses, but largely also upon licences to trade, hence it enhances the prices of both rents and commodities. Two thousand five hundred millions, or two and a half billions a year, together with the profits upon it (for nobody pays a dollar in taxes without endeavoring to more than equally recoup himself) form a heavy weight upon our thirty-four billions of annual earnings, and this weight cannot have failed to enhance very materially the cost of rents, commodities and services.

SOLUTION.

The expansion of the currency, its increased influence upon prices due to velocity, and its varied enhancement of the different classes of commodities and services, such as stocks, staples, fabrics, real-estate, etc., enhancing certain of these classes more rapidly than others, due to precession, have already been shown. To estimate these dynamic influences in statical figures is impracticable; we can only claim generally that they are very considerable, and that together with the influence of an enormously expensive system of governments, Federal, State and local, they appear to be the only causes of a magnitude commensurate with the colossal nature of the problem.

THE FUTURE.

In relation to the productive, economical and fiscal operations of a great country, especially with those of the newest, the most extensive, and the most powerful State in the world, whose economic policy is necessarily subject to much experiment and change, it is extremely hazardous to predict. But if we permit our judgment to be guided by three or four great lines of national figures, which, ever since the foundation of the Republic, have exhibited a constant though not uniform rate of increment, the future level of prices, concretely the future cost of living, unless modified by a radical change of fiscal policy, seems almost inevitably bound to rise still farther. These lines of figures represent the steady growth of population; the steady growth of productive capacity; the steady increase of circulating money and the increase of the transporting facilities and credit devices which enhance its velocity; and the recent and enormous increases of taxation (federal, state and local,) which, from something less than one billion in 1897, has now reached two-and-a-half billions and is still pointing upward.

The future, as indicated by these lines, points to still higher prices. Nor can we regard such further rise as likely to be materially retarded by any of the otherwise laudable and well-meant acts of legislation which have been lately secured by our public men and representatives.

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